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Winspear Business Reference Room  
University of Alberta  
1-18 Business Building  
Edmonton, Alberta T6G 2R6

# UNITED CORPORATIONS LIMITED

ANNUAL REPORT 1999



# UNITED CORPORATIONS LIMITED

Incorporated under the Laws of Canada

Winspear Business Reference Room  
University of Alberta  
1-18 Business Building  
Edmonton, Alberta T6G 2R6



## DIRECTORS

E. KENDALL CORK

Toronto

THE HON. HENRY N.R. JACKMAN

Toronto

DUNCAN N.R. JACKMAN

Toronto

CLIFFORD S. MALONE

Toronto

HELEN J. ROTENBERG

Toronto

IAN S. STEERS

London, England

CHRISTOPHER WANSBROUGH

Toronto

MICHAEL J. WHITE

Toronto

## Auditors

PricewaterhouseCoopers LLP  
Toronto, Ontario

## Transfer Agent and Registrar

Montreal Trust Company of Canada  
Shares transferable at Toronto.

## Shares Listed

Toronto Stock Exchange

## Stock Symbols

Common	UNC
First Preferred	UNC.PR.A
Second Preferred, 1959 Series	UNC.PR.B
Second Preferred, 1963 Series	UNC.PR.C

## Head Office

10th Floor  
165 University Avenue  
Toronto, Ontario  
M5H 3B8

## OFFICERS

THE HON. HENRY N.R. JACKMAN

Chairman and President

CLIFFORD S. MALONE

Vice-Chairman

HELEN J. ROTENBERG

Executive Vice-President, Investments

MARK M. TAYLOR

Secretary

KEITH G. FERNEYHOUGH

Treasurer

## Annual Meeting

Thursday, June 24, 1999, 11:45 a.m.  
4th Floor,  
Dominion of Canada Insurance Building,  
165 University Avenue,  
Toronto, Ontario



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Operating Results

In fiscal 1999, United Corporations Limited achieved net income of \$10,013,000 compared to fiscal 1998 net income of \$9,552,000. On a per common share basis, net income was \$1.04 per common share compared to 1998 at \$0.99 (restated for the May 29, 1998 stock dividend).

Canadian dividend income increased marginally from \$8,633,000 in 1998 to \$8,652,000 in 1999. The foreign dividend income increased by 13.1% from \$1,263,000 in 1998 to \$1,427,000 in 1999. The increase in foreign dividend income is mainly due to an increase in higher yielding foreign securities and a higher cost investment in 1999. Interest income amounted to \$2,191,000 in 1999, an increase of 49.4% from 1998. The increase in interest income in 1999 is due to higher cash balances and an increase in interest rates.

Total expenses amounted to \$1,795,000 (1998 - \$1,517,000) or .28% (1998 - .26%) of average assets for the year ended March 31, 1999.

During the year ended March 31, 1999, the Corporation realized net gains on investments before income taxes of \$42,645,000 as compared to the net gain of \$101,059,000 in the previous year. During the year ended March 31, 1998, the Company sold its 2,074,721 shares of National Trustco Inc. resulting in a gain of \$45,929,000. Excluding this gain, realized gains on investments amounted to \$55,133,000 for the year ended March 31, 1998. The reduction in the realized gain in 1999 is partially attributable to a decline in Canadian stock markets during the current fiscal year.

The investment portfolio of the Corporation is comprised of a mix of high income yielding and low income yielding Canadian and foreign investments. Total revenue and net income per share can vary significantly from period to period depending on the investment mix of the portfolio.

### Dividends

It is a policy of the Corporation to distribute to its shareholders in any taxation year, sufficient taxable Canadian dividends to enable the parent company to maintain its status as an "investment corporation" as defined by the Income Tax Act (Canada). In general terms, the distribution requirement is eighty-five percent of the aggregate of taxable Canadian dividends received and two-thirds of taxable income excluding taxable capital gains.

Regular quarterly dividends were paid on the first and second preferred shares during the year. Regular dividends paid on the common shares totalled \$0.92 per share in 1999 and \$3.71 per share in 1998 (restated to give retroactive effect to the May, 1998 capital gains stock dividend).

If significant capital gains have been realized by the Corporation it is a policy of the Corporation to pay an annual capital gains dividend to recover taxes paid or payable.

On May 29, 1998 a capital gains dividend of \$8.30 per common share was paid to shareholders of record May 19, 1998. Payment of this dividend was made in the form of \$2.49 per share in cash and \$5.81 per share (one additional common share for approximately every 13.5404 shares owned) by way of a common stock dividend based on the issue price of \$78.67 per share. The number of common shares outstanding increased from 8,626,424 to 9,263,327.

On May 6, 1999, your Directors declared a capital gains dividend of \$4.75 per common share, payable on May 28, 1999 to shareholders of record on May 17, 1999. Payment of this dividend will be in the form of \$1.425 per share in cash and \$3.325 per share (one additional common share for approximately every 20.9744 share owned) by way of a common stock dividend based on the issue price of \$69.74 per share. This capital gains dividend was declared in order to recover the capital gains tax exigible on the Company's capital gains realized in fiscal 1999.



**Assets**

Total assets were \$632.1 million at March 31, 1999 which is an decrease of 5.8% from 1998's total assets of \$671.0 million. The cost of investments in Canadian securities increased 3.9% from \$302.3 million in 1998 to \$314.3 million in 1999. The cost of foreign securities at March 31, 1999 was \$108.4 million, an increase of 4.8% from \$103.4 million in 1998.

For the year ended March 31, 1999 the Corporation's net equity value per common share decreased by 2.6% after adjustment for the common dividends paid during the year. During the comparable period, the Toronto Stock Exchange Total Return Index decreased 11%.

**Management Agreements**

The Corporation continued to retain Scotia Cassels Investment Counsel Limited (formerly Cassels Blaikie Investment Management Limited), Suite 1200, One Queen Street East, Toronto, Ontario, to manage certain of the investments of the Corporation. Scotia Cassels received a fee of 0.15% per annum of the market value of its managed portion of the Corporations' portfolio calculated at the close of each calendar month.

Effective January 1, 1999, the company retained Mulvihill Capital Management Inc., 121 King Street West, Suite 2600, Toronto, Ontario, to manage certain investments of the company. Mulvihill receives a fee of 0.15% per annum of the market value of their managed portion of the company's portfolio calculated at the close of each calendar month. Mrs. Helen Rotenberg is the principal of Mulvihill responsible for the account.

E-L Financial Corporation Limited, 165 University Avenue, 10th Floor, Toronto, Ontario provides clerical, statistical and accounting services. E-L Financial Corporation Limited receives in consideration for these services, a management fee equal to 0.05% per annum of the market value of the net assets of the Corporation calculated at the close of each calendar month.

The management agreements are subject to termination at any time upon 30 days prior written notice by either party to the other. For the year ended March 31, 1999, management fees to Scotia Cassels Investment Counsel Limited amounted to \$295,000, E-L Financial Corporation Limited \$328,000 and Mulvihill Capital Management Inc. \$163,000.

**Year 2000**

Any inability of systems to properly interpret dates as we move into and beyond the year 2000 could cause business interruption and potentially result in financial and other losses.

The Company's exposure primarily relates to the adverse impacts on the operations on the companies in which it has equity positions. As with all businesses, the Company relies on services provided by utilities and on financial services provided by third parties, consisting mainly of investment portfolio systems, external transfer agent services, external custodial and banking services, the Canadian Depository for Securities and stock and bond pricing services. Other aspects of the Company's internal operations are not technology reliant. The Company's internal investment portfolio system has been confirmed, in writing, as compliant by the vendor. Testing of this system is to be undertaken by the Company in 1999. The Company has received written responses from each of its external service providers regarding their year 2000 readiness.

The cost of taking required actions and precautions, have been insignificant. We are confident we are taking appropriate actions and precautions.

**Liquidity and Capital Resources**

Liquidity refers to the Corporation's ability to maintain a cash flow adequate to fund operations and capital investments on a timely and cost efficient basis. It is the objective of the Corporation to provide its shareholders an above average rate of return and long-term capital appreciation primarily through investment in equity securities. From time to time, however, assets of the Corporation may be invested in interest bearing short-term securities pending the selection of suitable equity investments. The Corporation's income from investments after payment of dividends is used to fund operating costs as well as provide resources for additional investments.

May 6, 1999

The Hon. Henry N.R. Jackman  
Chairman of the Board and President



**CONSOLIDATED STATEMENT  
OF ASSETS AND LIABILITIES**

	March 31	
	1999	1998
	(000's)	
<b>Assets</b>		
Portfolio investments, at market value (cost - \$422,639; 1998 - \$405,731) .....	\$ 587,713	\$ 639,574
Cash and short-term investments .....	37,841	29,159
Accrued income on investments .....	1,011	884
Receivable in respect of investments sold .....	5,496	1,192
Other assets .....	74	197
	<u>632,135</u>	<u>671,006</u>
<b>Liabilities</b>		
Accrued liabilities .....	313	269
Payable in respect of investments purchased .....	5,055	3,424
Income taxes payable .....	13,895	17,511
	<u>19,263</u>	<u>21,204</u>
Net assets	<u>\$ 612,872</u>	<u>\$ 649,802</u>
<b>Represented by</b>		
Stated capital (Note 2)		
52,237 First Preferred Shares .....	\$ 119	\$ 119
200,000 Second Preferred Shares .....	6,000	6,000
9,263,327 (1998 - 8,626,424) Common Shares .....	320,463	270,358
	<u>326,582</u>	<u>276,477</u>
Surplus		
Deficit .....	(21,467)	(22,707)
Accumulated net realized gains on investments .....	142,683	162,189
	<u>121,216</u>	<u>139,482</u>
Unrealized appreciation in value of investments .....	165,074	233,843
	<u>\$ 612,872</u>	<u>\$ 649,802</u>

APPROVED BY THE BOARD:

THE HON. HENRY N.R. JACKMAN, Director

CLIFFORD S. MALONE, Director

**CONSOLIDATED STATEMENT  
OF NET INCOME**

	Year ended March 31	
	1999	1998
	(000's)	
<b>Income</b>		
Dividends .....	\$ 10,079	\$ 9,896
Interest.....	2,191	1,466
	<u>12,270</u>	<u>11,362</u>
<b>Expenses</b>		
Management costs (Note 3) .....	1,202	983
Directors' and officers' remuneration .....	149	149
Office and miscellaneous .....	164	155
Transfer, registrar and custodial agents' fees .....	85	62
Professional fees .....	64	77
Capital tax .....	131	91
	<u>1,795</u>	<u>1,517</u>
Income before income taxes .....	10,475	9,845
Provision for income taxes (Note 4) .....	462	293
Net income for the year .....	<u>\$ 10,013</u>	<u>\$ 9,552</u>
Net income per common share .....	<u>\$ 1.04</u>	<u>\$0.99</u>



**CONSOLIDATED STATEMENT  
OF DEFICIT**

	Year ended March 31	
	1999	1998
	(000's)	
<b>Deficit</b>		
Balance at beginning of year .....	\$ (22,707)	\$ 2,453
Net income .....	10,013	9,552
	<u>(12,694)</u>	<u>12,005</u>
<b>Dividends:</b>		
First Preferred Shares .....	78	78
Second Preferred Shares .....	300	300
Common Shares (per share - \$0.92; 1998 - \$4.10) .....	8,395	34,334
	<u>8,773</u>	<u>34,712</u>
Balance at end of year .....	<u>\$ (21,467)</u>	<u>\$ (22,707)</u>
<b>Accumulated Net Realized Gains on Investments</b>		
Balance at beginning of year .....	\$ 162,189	\$ 80,439
Net gain on investments sold during the year		
Proceeds from sale of investments .....	194,983	263,765
Investments at cost at beginning of year .....	405,731	316,947
Investments purchased during the year .....	169,246	251,490
Investments at cost at end of year .....	(422,639)	(405,731)
Cost of investments sold .....	152,338	162,706
	<u>42,645</u>	<u>101,059</u>
Less: Income taxes on net taxable gains (Note 4) .....	13,911	19,309
Net gain on investments sold .....	<u>28,734</u>	<u>81,750</u>
	<u>190,923</u>	<u>162,189</u>
Capital gains dividend .....	(71,599)	—
Income tax recovery resulting from payment of capital gains dividend .....	23,359	—
	<u>(48,240)</u>	<u>—</u>
Balance at end of year .....	<u>\$ 142,683</u>	<u>\$ 162,189</u>

**CONSOLIDATED STATEMENT  
OF CHANGES IN NET ASSETS**

	Year ended March 31	
	1999	1998
	(000's)	
Net assets at beginning of year .....	\$649,802	\$478,172
Add (deduct) changes during the year:		
Net income .....	10,013	9,552
Redemption of fractional shares for cash .....	(15)	(13)
Net gain on investments sold .....	28,734	81,750
(Decrease) increase in unrealized appreciation in value of investments .....	(68,769)	95,709
Regular cash dividends .....	(8,773)	(15,368)
Excess of capital gains dividend refund over cash portion of capital gains dividend paid .....	1,880	—
Net assets at end of year .....	<u>\$ 612,872</u>	<u>\$649,802</u>

**AUDITORS' REPORT**
**To the Shareholders of United Corporations Limited**

We have audited the consolidated statement of assets and liabilities of United Corporations Limited as at March 31, 1999 and 1998, the consolidated statement of investments as at March 31, 1999 and the consolidated statements of net income, deficit and changes in net assets for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1999 and 1998, its investments at March 31, 1999 and the results of its operations and the changes in its net assets for the years then ended in accordance with generally accepted accounting principles.

May 6, 1999  
Toronto, Canada

**PricewaterhouseCoopers LLP**  
Chartered Accountants



# UNITED CORPORATIONS LIMITED

## CONSOLIDATED STATEMENT OF INVESTMENTS AS AT MARCH 31, 1999

No. of Shares or Par Value		Cost	Market Value	% of Net Assets
		(000's)		
<b>Gold</b>				
280,600	Barrick Gold Corporation .....	\$ 7,083	\$ 7,239	
44,600	Franco Nevada Mining Corp. ....	1,292	1,066	
285,000	High River Gold Mines Ltd. ....	803	179	
98,500	Placer Dome Inc. ....	2,157	1,645	
315,000	Solitario Resources Corporation .....	1,319	394	
150,000	Teck Corporation Ltd. Class B .....	3,613	1,658	
		16,267	12,181	2.0
<b>Oil and Gas</b>				
15,888	Alberta Energy Company Ltd. ....	463	591	
275,000	Anderson Exploration Ltd. ....	4,016	3,974	
97,150	Canadian Natural Resources Ltd. ....	2,466	2,526	
138,900	Canadian Occidental Petroleum Ltd. ....	3,795	2,583	
200,000	Crestar Energy Inc. ....	4,718	2,870	
270,000	Imperial Oil Limited .....	4,848	7,749	
100,000	PanCanadian Petroleum Ltd. ....	1,816	1,915	
136,550	Petro-Canada .....	2,608	2,410	
402,380	Poco Petroleum Ltd. ....	3,654	4,668	
200,000	Renaissance Energy Ltd. ....	5,513	3,520	
48,700	Suncor Energy Inc. ....	1,198	2,471	
167,500	Talisman Energy Inc. ....	4,693	5,486	
		39,788	40,763	6.6
<b>Consumer Products</b>				
23,560	Biovail Corporation International .....	1,337	1,368	
50,000	Corby Distilleries Ltd. Class A .....	2,352	4,087	
348,000	Imasco Limited .....	6,117	11,397	
26,996	Magna International Inc. Class A .....	2,244	2,349	
239,816	MDS Inc. Class B .....	2,987	8,082	
200,000	Molson Companies Limited Class A .....	5,380	4,220	
139,100	Richtree Inc. Class A .....	709	233	
205,940	Seagram Company Limited (The) .....	9,246	15,600	
		30,372	47,336	7.7
<b>Mines and Metals</b>				
79,700	Alcan Aluminium Limited .....	2,551	3,096	
250,000	Aur Resources Inc. ....	2,148	537	
83,600	Noranda Inc. ....	1,510	1,300	
68,850	Rio Algom Limited .....	1,897	1,102	
		8,106	6,035	1.0
<b>Paper and Forest Products</b>				
92,095	Abitibi-Consolidated Inc. ....	1,336	1,243	
129,700	Cascades Inc. ....	1,310	1,067	
151,000	Domtar Inc. ....	1,485	1,646	
29,370	Donohue Inc. Class A .....	580	970	
180,000	International Forest Products Limited Class A .....	1,762	675	
175,000	MacMillan Bloedel Limited .....	3,468	2,914	
		9,941	8,515	1.4
<b>Real Estate</b>				
260,000	Anthem Properties .....	2,195	1,053	
270,000	Brookfield Properties Corporation .....	5,381	4,806	
52,650	Trizec Hahn Corporation .....	1,311	1,464	
		8,887	7,323	1.2
<b>Merchandising</b>				
18,900	Biochem Pharma Inc. ....	616	609	
147,000	Canadian Tire Corp. Ltd. Class A .....	4,512	5,902	
215,000	Finnish International Ltd. ....	3,041	2,505	
287,150	Hudson's Bay Company .....	6,903	4,580	
61,450	Sears Canada Inc. ....	691	1,588	
24,650	Weston (George) Limited .....	1,310	1,571	
		17,073	16,755	2.7

## CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

UNCONSOLIDATED STATEMENT OF INVESTMENTS (continued)				
No. of Shares or Par Value		Cost	Market Value	% of Net Assets
		(000's)		
<b>Conglomerates</b>				
402,650	Canadian Pacific Limited .....	\$ 10,031	\$ 11,757	
107,850	EdperBrascan Corporation Class A .....	2,469	1,931	
25,850	Onex Corporation .....	595	1,318	
46,450	Power Corporation of Canada .....	1,480	1,343	
		14,575	16,349	2.7
<b>Industrial Products</b>				
214,850	ATI Technologies Inc. ....	3,381	4,985	
51,700	ATS Automation Tooling Systems Inc. ....	1,191	556	
368,250	Bombardier Inc. Class B. ....	1,461	7,310	
15,900	C-MAC Industries Inc. ....	381	401	
24,100	Cinram Limited .....	361	342	
36,300	Cognos Inc. ....	1,414	1,272	
225,000	Com Dev International Limited .....	1,412	1,463	
30,000	Electrofuel Inc. ....	150	75	
197,350	GEAC Computer Corporation Ltd. ....	4,897	4,638	
42,650	Ipsco Inc. ....	1,290	1,269	
251,850	Mitel Corporation .....	2,884	2,581	
27,800	Newbridge Networks Corporation .....	1,020	1,307	
205,800	Northern Telecom Limited .....	9,392	19,345	
21,100	Royal Group Technologies Limited .....	740	785	
195,000	Teklogix International Inc. ....	1,309	3,900	
155,000	Westaim Corporation (The) .....	681	891	
		31,964	51,120	8.3
<b>Transportation</b>				
362,568	Algoma Central Corporation .....	6,201	18,038	
186,950	Canadian National Railway Company .....	7,396	15,722	
88,700	Laidlaw Inc. ....	1,288	781	
		14,885	34,541	5.6
<b>Pipelines</b>				
136,000	Enbridge Inc. ....	4,335	9,092	
198,050	TransCanada Pipelines .....	4,828	3,812	
43,500	Westcoast Energy Inc. ....	1,395	1,288	
		10,558	14,192	2.3
<b>Utilities</b>				
558,000	BCE Inc. ....	19,416	37,247	
166,300	BCT.Telus Communications Inc. Class A .....	5,219	5,945	
41,500	BCT.Telec Communications Inc. ....	953	1,536	
32,969	Manitoba Telecom Services Inc. ....	566	621	
61,600	Teleglobe Inc. ....	1,898	2,827	
230,000	Transalta Corp. ....	5,341	5,049	
		33,393	53,225	8.7
<b>Communications</b>				
58,800	Call-Net Enterprises Class B .....	1,119	770	
226,050	Canwest Global Communications Corp. SV .....	5,366	5,321	
42,000	Quebecor Inc. ....	1,358	1,397	
160,000	Rogers Communications Inc. Class B .....	1,496	4,384	
17,800	Shaw Communications Class B .....	637	863	
137,000	Thomson Corporation (The) .....	4,352	5,788	
230,000	Torstar Corp. Class B .....	2,947	4,025	
128,000	WIC Western International Communications Ltd. Class B .....	2,878	4,656	
		20,153	27,204	4.4
<b>Financial Services</b>				
87,750	Bank of Montreal .....	5,688	5,313	
600,786	Bank of Nova Scotia (The) .....	14,764	19,255	
150,500	Canadian Imperial Bank of Commerce .....	5,954	5,809	
85,000	Mackenzie Financial Corp. ....	1,732	1,509	
517,600	Power Financial Corporation .....	5,376	15,010	
364,800	Royal Bank of Canada .....	11,065	25,810	
458,500	Toronto-Dominion Bank (The) .....	12,572	31,682	
103,100	Trilon Financial Corporation Class A .....	1,152	1,212	
		58,303	105,600	17.2



# UNITED CORPORATIONS LIMITED

## CONSOLIDATED STATEMENT OF INVESTMENTS (Continued)

No. of Shares or Par Value		Cost	Market Value	% of Net Assets
		(000's)		
<b>Foreign</b>				
40,000	A T & T .....	\$ 4,722	\$ 4,817	
12,500	Abbott Laboratories .....	949	882	
7,000	Albertson Inc. ....	643	574	
90,000	Alcatel Spon ADR .....	3,069	3,098	
7,900	America Online Inc. ....	184	1,740	
5,100	American Express Company .....	928	904	
7,850	American Int'l Group Inc. ....	464	1,429	
5,100	Ameritech Corporation .....	313	445	
49,200	Amgen Inc. ....	3,782	5,558	
10,800	Automatic Data Processing Inc. ....	659	674	
30,000	AXA-UAP ADR .....	3,036	2,999	
60,000	Bayer AG ADR .....	3,950	3,372	
8,500	Bell Atlantic Corp. ....	672	663	
6,700	Biogen Inc. ....	973	1,155	
10,700	Carnival Corp. ....	341	784	
9,300	Chevron Corp. ....	1,140	1,241	
9,000	Cisco Systems Inc. ....	575	1,488	
100,500	Compaq Computer Corporation .....	5,538	4,805	
11,700	Comcast Corporation Cl A .....	1,162	1,086	
10,300	Costco Companies Inc. ....	944	1,423	
30,000	Dow Jones & Co. Inc. ....	1,427	2,136	
107,786	Emerging Markets Investors Fund .....	3,045	2,368	
10,700	Exxon Corporation .....	957	1,139	
12,600	Fannie Mae .....	928	1,316	
50,000	Federated Department Stores .....	3,150	3,027	
10,000	Firstar Corporation .....	946	1,350	
45,000	Ford Motor Company .....	4,095	3,853	
9,900	General Electric Company .....	612	1,652	
10,000	Hitachi Limited ADR .....	1,077	1,098	
12,700	Home Depot Inc. ....	298	1,193	
42,100	IBM Corporation .....	3,089	11,258	
40,991	ING Groep ADR .....	1,899	3,398	
4,000	Johnson & Johnson .....	395	565	
40,000	Koninklijke Philips Electronic .....	2,106	4,975	
9,000	Lilly (Eli) & Co. ....	686	1,152	
4,700	Lucent Technologies Inc. ....	760	764	
10,900	MCI Worldcom Inc. ....	1,012	1,456	
20,000	Matsushita Electric Industrial Company Ltd. ADR .....	4,854	5,835	
45,000	Maytag Corp. ....	3,889	4,099	
50,000	Merrill Lynch & Co. ....	5,198	6,671	
7,900	Microsoft Corporation .....	180	1,067	
110,000	News Corporation Ltd. ADR .....	3,379	4,896	
20,700	Oracle Corp. ....	873	824	
6,600	Pfizer Inc. ....	504	1,382	
10,100	Pitney Bowes Inc. ....	847	971	
31,300	Proctor & Gamble Co. ....	4,296	4,625	
18,200	T. Rowe Price Assoc. ....	980	944	
12,700	SBC Communications Inc. ....	621	903	
12,400	Safeway Inc. ....	242	960	
50,000	Siam Investment Fund .....	708	554	
13,000	Suez Lyonnaise des Eaux .....	2,484	3,635	
4,000	Sun Microsystems .....	481	754	
32,000	TJX Companies .....	998	1,641	
20,000	Telecom Italia SPA-SP ADR .....	3,359	3,149	
9,400	Tellabs, Inc. ....	839	1,386	
10,600	Tyco International .....	606	1,147	
15,088	Vivendi .....	2,637	5,609	
6,500	Vivendi Warrants .....	—	24	
200,000	Volkswagen AG Spon ADR .....	3,822	3,885	
23,400	Walgreen Company .....	279	997	
9,800	Wal-Mart Stores Inc. ....	521	1,363	
98,700	Walt Disney Company (The) .....	3,272	4,635	
21,400	Wells Fargo & Co. ....	554	1,132	
95,000	World Equity Benchmark Shares - Japan .....	1,425	1,648	
		108,374	146,574	24.0
<b>Total Portfolio</b> .....		422,639	587,713	95.8
<b>Cash and short-term investments</b> .....		37,841	37,841	6.2
<b>Other liabilities, net</b> .....		(12,682)	(12,682)	(2.0)
<b>Net assets</b> .....		\$ 447,798	\$ 612,872	100.0

NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS  
MARCH 31, 1999

1. Summary of significant accounting policies

- (a) Principles of consolidation  
The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries.
- (b) Portfolio investments  
Portfolio investments are carried at market value which is determined by published last sales prices on securities exchanges at March 31, 1999. If the latest sale price does not lie within the range of the closing bid and offering price, then the average of these two quotes is used. When no quoted market value is available, the market value of these investments is determined by the Corporation's investment managers.  
As an investment corporation, no provision is made for deferred income taxes on the unrealized tax appreciation in value of investments as at March 31, 1999 (Note 4).
- (c) Investment transactions  
Investment transactions are accounted for on a trade date basis, and realized gains and losses from such transactions are calculated on an average cost basis.
- (d) Dividend and interest income  
Dividend income is recognized on the ex-dividend date and interest income is recognized as earned.
- (e) Foreign exchange  
The average cost of foreign portfolio investments is the cost thereof translated into Canadian dollars at the rate of exchange prevailing at the time of purchase. The market value of portfolio investments and short-term investments have been translated into Canadian dollars at the closing rates of exchange.

2. Stated Capital

The classes of shares and, where applicable, the maximum number of shares that the Corporation is authorized to issue are as follows:

- (a) 52,237 First Preferred Voting Shares without nominal or par value are redeemable at \$30.00 each;
- (b) 200,000 Second Preferred Shares without nominal or par value, issuable in series of which 80,290 shares are designated \$1.50 Cumulative Redeemable Second Preferred Shares, 1959 Series and are redeemable at \$30.00 each and 119,710 shares are designated \$1.50 Cumulative Redeemable Second Preferred Shares, 1963 Series and are redeemable at \$31.50 each;
- (c) Third Preferred Shares without nominal or par value, issuable in series. The maximum number of Third Preferred Shares that may be outstanding at any time shall be that number of which the stated value does not exceed \$15,000,000; and
- (d) an unlimited number of Common Shares.

During the year, the Corporation declared a capital gains dividend of \$8.30 per common share payable to shareholders in the form of \$2.49 per share in cash and \$5.81 per share in stock (1 additional share for approximately every 13.5404 shares owned) based on an issue price of \$78.67 per share.

The changes in common stock during the year were as follows:

	1999		1998	
	Number of shares	Amount (000's)	Number of shares	Amount (000's)
Balance, beginning of year	8,626,424	\$ 270,358	8,374,098	\$ 251,027
Capital gains stock dividend	637,085	50,120	—	—
Redemption of fractional shares	(182)	(15)	—	—
	9,263,327	320,463	8,374,098	251,027
Regular stock dividend	—	—	252,502	19,344
Redemption of fractional shares	—	—	(176)	(13)
Balance, end of year	9,263,327	\$ 320,463	8,626,424	\$ 270,358



**NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS (Continued)  
MARCH 31, 1999**

**3. Related party information**

Included in the Corporation's portfolio of investments is a security in a significantly influenced company with a market value of \$18,038,000 (1998 - \$26,105,000). Dividends from significantly influenced companies for the year ended March 31, 1999 amounted to \$363,000 (1998 - \$1,649,000). During the year ended March 31, 1998, the Company sold its 2,074,721 shares of National Trustco Inc., for cash of \$54,928,000 and 259,340 common shares of the Bank of Nova Scotia, resulting in a gain of \$45,929,000. For income tax purposes, \$29,356,000 of this gain was considered to be a dividend and \$11,578,000 will be recognized as a capital gain for income tax purposes when the remaining Bank of Nova Scotia shares are sold.

Included in management costs are fees paid to significantly influenced companies with respect to the management of certain of its investments and for administrative services. The total fees for the year ended March 31, 1999 amounted to \$328,000 (1998 - \$425,000).

**4. Income taxes on an investment corporation**

As an investment corporation under Section 130 of the Income Tax Act (Canada), the "Act", taxable dividends from Canadian corporations are not taxed while interest and other net income is taxed at a reduced rate of approximately 24%. Net interest income earned by the subsidiaries is taxed at full statutory rates of approximately 45%.

The company's provision for income taxes is determined as follows:

	1999	1998
Basic combined federal and provincial rate .....	43.82%	43.82%
Investment corporation reduction .....	(20.00)	(20.00)
	23.82	23.82
Effect of tax on subsidiaries' income at basic tax rate and other adjustments .....	1.52	0.35
Effective tax rate .....	25.34 %	24.17%
Applied to:		
Net income for the year .....	\$ 10,013	\$ 9,552
Add: Income taxes .....	462	293
	10,475	9,845
Less: Dividends from taxable Canadian companies .....	8,652	8,633
	\$ 1,823	\$ 1,212
Provision for income taxes .....	\$ 462	\$ 293

Taxes on capital gains of approximately 33% are refundable when the Corporation, as an investment corporation, distributes such gains by way of capital gains dividends to its shareholders. The effective tax rate for the year ended March 31, 1998 is less than the statutory rate due to the non-taxable dividend of \$29,356,000 and the remaining deferred capital gain of \$11,578,000 (Note 3). The Corporation has refundable capital gains tax on hand of \$14,981,000 at March 31, 1999.

In accordance with the Act, a corporation can qualify as an investment corporation if certain tests are satisfied. Amendments to the investment corporation section of the Act have been enacted effective as of June 20, 1996, the significant impact of which is to limit and restrict "specified shareholders". Further amendments were released on August 14, 1998 and December 10, 1998 which include modifications to the definition of specified shareholders. Under the proposed amendments, a specified shareholder is generally a shareholder, who, along with certain persons with whom the shareholder is related, has a greater than 25% shareholding. The company had specified shareholders on June 20, 1996. The amendments generally allow the company to maintain its investment corporation status as long as it does not have any specified shareholders other than specified shareholders existing on June 20, 1996. In addition, the specified shareholders at June 20, 1996 cannot, after June 20, 1996, contribute capital or acquire additional shares of the company other than through certain specified distributions.

NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS (Continued)  
MARCH 31, 1999

**5. Net equity value of the Corporation's Common Shares**

The net equity value of the Corporation's Common Shares is determined by adding an amount, which has not been recorded as an asset in the financial statements, representing refundable capital gains tax on hand at the end of the year (Note 4) to the net assets and deducting from the resulting total the outstanding preferred shares at their cost of redemption. Net equity value per Common Share is the net equity value divided by the number of Common Shares outstanding.

	March 31	
	1999	1998
	(000's)	
Net assets .....	\$ 612,872	\$649,802
Add: Refundable capital gains tax on hand, end of year .....	14,981	25,082
	<u>627,853</u>	<u>674,884</u>
Deduct:		
Cost to redeem (Note 2)		
First Preferred Shares .....	1,567	1,567
Second Preferred Shares .....	6,180	6,180
	<u>7,747</u>	<u>7,747</u>
Net equity value .....	<u>\$620,106</u>	<u>\$ 667,137</u>
Net equity value per Common Share .....	<u>\$ 66.94</u>	<u>\$ 72.02</u>

**6. Uncertainty due to the Year 2000 issue**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the company, including those related to the company's investments, suppliers, or other third parties, will be fully resolved.

**7. Subsequent event**

On May 6, 1999, the Corporation declared a capital gains dividend of \$4.75 per common share, payable on May 28, 1999 to shareholders of record on May 17, 1999. Payment of this dividend will be in the form of \$1.425 per share in cash and \$3.325 per share (one additional common share for approximately every 20.9744 shares owned) by way of a common stock dividend based on the issue price of \$69.74 per share.

This dividend will result in a \$14,355,000 recovery of the Corporation's refundable capital gains tax on hand of \$14,981,000 (see Note 5) at March 31, 1999.

The amounts noted in the financial statements for net income per common share and net equity value per common share at March 31, 1999 would be \$0.99 and \$63.90, respectively, after giving retroactive effect to the stock portion of the capital gains dividend.



# FINANCIAL RECORD - 1971 - 1999

Year	Total Net Assets at Market Value* (000's)	Funded Debt and Preferred Shares = (000's)	Net Equity Value (000's)	Common Shares Outstanding** (000's)	Net Equity Value per Common Share**	Net Income available for Common Shares (000's)	Net Income per Common Share**	Common Dividend per Common Share**
1971	\$ 73,401	\$ 7,747	\$ 65,655	9,196	\$ 7.09	\$ 1,669	\$0.18	\$0.19
1972	86,757	7,747	79,020	9,196	8.53	1,724	0.19	0.20
1973	83,758	7,747	76,150	9,199	8.21	374 (a)	0.04 (a)	0.05 (a)
1974	82,457	7,747	74,926	9,199	8.07	1,996	0.22	0.20
1975	71,674	7,747	64,153	9,207	6.90	2,791	0.30	0.26
1976	80,075	15,747	64,544	9,207	6.97	2,522	0.27	0.26
1977	78,614	15,747	63,083	9,207	6.81	2,116	0.23	0.26
1978	82,829	15,747	67,298	9,207	7.27	2,335	0.25	0.26
1979	116,793	17,253	100,281	9,207	10.83	2,478	0.16	0.26
1980	141,700	17,404	129,232	9,259	13.95	3,703	0.40	0.33
1981	197,143	15,747	194,350	9,259	20.98	4,808	0.52	0.50
1982	127,643	15,747	121,412	9,263	13.11	4,437	0.48	0.44 A
1983	182,227	15,747	174,692	9,263	18.86	4,468	0.48	0.44
1984	201,172	15,747	191,984	9,263	20.73	3,934	0.42	0.39 A
1985	247,596	15,747	234,514	9,263	25.32	4,788	0.52	0.45 A
1986	327,327	15,747	319,783	9,263	34.52	4,816	0.52	0.50 A
1987	370,718	7,747	371,437	9,263	40.10	4,841	0.52	0.47 A
1988	316,009	7,747	322,434	9,263	34.81	6,785	0.73	0.66 A
1989	329,082	7,747	321,668	9,263	34.73	8,778	0.95	1.46 A
1990	340,980	7,747	343,482	9,263	37.08	16,989	1.83	1.61
1991	311,586	7,747	304,079	9,263	32.83	9,339	1.01	1.04 A
1992	308,237	7,747	300,992	9,263	32.49	7,880	0.85	0.82
1993	314,603	7,747	308,617	9,263	33.32	7,617	0.82	1.63 A
1994	359,673	7,747	363,496	9,263	39.24	7,192	0.78	0.76
1995	355,050	7,747	352,874	9,263	38.10	7,963	0.86	0.84 A
1996	396,725	7,747	399,853	9,263	43.17	7,969	0.86	0.85
1997	478,172	7,747	475,416	9,263	51.32	8,960	0.97	0.90 A
1998	649,802	7,747	667,137	9,263	72.02	9,174	0.99	3.71
1999	612,872	7,747	620,106	9,263	66.94	9,635	1.04	0.92 A

= Preferred Shares at the cost of redemption.

\* Total assets at market value less liabilities exclusive of short term debt.

\*\* Restated for the following stock dividends paid in the fiscal year: 1-for-6.4725 (issue price \$38.81) in 1982, 1-for-10 (issue price \$40.41) in 1984, 1-for-10 (issue price \$40.93) in 1985, 1-for-30 (issue price \$46.53) in 1986, 1-for-13 (issue price \$60.52) in 1987, 1-for-15 (issue price \$65.46) in 1988, and 1-for-8 (issue price \$54.53) in 1989, 1-for-55 (issue price \$48.30) in 1989, 1-for-16 (issue price \$50.72) in 1991, 1-for-38 (issue price \$42.18) in 1993, 1-for-16.42525 (issue price \$49.44) in 1995, 1-for-14.47926 (issue price \$62.84) in 1997, 1-for-33.1645 (issue price \$76.61) in 1998, and 1-for-13.5404 (issue price \$78.67) in 1999.

A Excludes capital gains dividends paid in cash and in common shares.

(a) For three months ending March 31, 1973.







